



Lawrence J. Hogan, Jr., Governor
Boyd K. Rutherford, Lt. Governor
Van T. Mitchell, Secretary

Maryland Medicaid Pharmacy Program

Welcome

to

The New Medicaid Pharmacy Reimbursement Methodology Meeting



Athos Alexandrou, MBA
Director
Maryland Medicaid Pharmacy Program



Agenda

- Background
- Cost of Dispensing Survey
- Cost Feasibility Analysis
- Recommendations from M&S
- Current Reimbursement Methodology
- New Reimbursement Methodology
- Next Steps
- Q and A

Background





**MYERS AND
STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS

PRESCRIPTION DISPENSING COST AND COST FEASIBILITY ANALYSIS FOR THE STATE OF MARYLAND

**PERFORMED BY MYERS AND STAUFFER LC UNDER CONTRACT WITH THE
MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE**

**PRESENTATION TO PHARMACY STAKEHOLDERS
MARCH 10, 2015**

DEDICATED TO GOVERNMENT HEALTH PROGRAMS



■ **PRESCRIPTION DISPENSING COST ANALYSIS COMPONENTS**

- Pharmacy Cost of Dispensing Survey
- Cost Feasibility Analysis for use of the National Average Drug Acquisition Cost (NADAC) Benchmark

■ PHARMACY COST OF DISPENSING SURVEY

Objective:

To determine the cost of dispensing (COD)
Medicaid prescriptions to pharmacies
participating in the Maryland Medicaid
Pharmacy Program.

■ OVERVIEW OF THE SURVEY PROCESS


- Survey forms were designed in collaboration with DHMH.
- Survey forms were distributed on June 24, 2011 to all pharmacies enrolled in the Maryland Medicaid Pharmacy Program.
- Reminder letters were sent and due date extensions were allowed to encourage survey response.
- Surveys were distributed to 1,410 pharmacies and approximately 82% of pharmacies submitted a usable survey.

■ OVERVIEW OF THE SURVEY PROCESS

- All 1,111 returned surveys were subjected to desk reviews to ensure completeness and accuracy.
- There were 40 pharmacies selected for expanded review procedures and requested to submit supporting documentation.
- Survey data was analyzed to calculate the COD at each pharmacy. The COD was summarized for all pharmacies and subsets of pharmacies. Results were reviewed by statisticians.
- Findings were presented in a report to DHMH.

■ COST OF DISPENSING SURVEY METHODOLOGY

- Survey Instrument
 - Pharmacy Attributes

 **MARYLAND MEDICAID PHARMACY PROGRAMS**
MANDATORY COST OF DISPENSING SURVEY

Maryland Department of Health and Mental Hygiene
201 W. Preston Street • Baltimore, Maryland 21201
Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

Office of Systems, Operations and Pharmacy Medical Care Programs Charles E. Lehman
Executive Director

M&S Use Only Prov. No. (NPI) Return Completed Forms to:
Myers and Stauffer LC
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER
Complete and return by July 15, 2011.
Instructions are enclosed. Call toll free (800) 374-6858 or e-mail pharmacy@msic.com if you have any questions.

Name of Pharmacy _____ Telephone No. () _____
Street Address _____ Fax No. () _____
City _____ County _____ State _____ Zip Code _____

DECLARATION BY OWNER AND PREPARER
I declare that I have examined this cost report including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related financial statements or federal income tax return, except as explained in the reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

Your Signature _____ Print/Type Name _____ Title/Position _____ Date _____
Preparer's Signature (other than owner) _____ Title/Position _____ Date _____
Preparer's Street Address _____ City and State _____ Zip _____ Phone Number _____

SECTION 1A -- PHARMACY ATTRIBUTES
All Pharmacies should complete lines (a) through (k).

List the total number of all prescriptions dispensed during the fiscal year as follows:

(a) 1. New _____ 2. Refill _____ 3. Total _____

What is the approximate percentage of prescriptions dispensed for the following classifications?
(b) 1. Medicaid Fee for Service _____% 2. Medicaid Managed Care _____%
3. Other 3rd Party _____% 4. Cash _____%
What is the approximate percentage of payments received from the following classifications?
1. Medicaid Fee for Service _____% 2. Medicaid Managed Care _____%
3. Other 3rd Party _____% 4. Cash _____%

Ownership Affiliation
(c) 1. ☐ Independent (1 to 3 units) 2. ☐ Chain (4 or more units)
3. ☐ Institutional (service to LTC facilities only) 4. ☐ Other (specify) _____

Type of Ownership
(d) 1. ☐ Individual 2. ☐ Corporation 3. ☐ Partnership 4. ☐ Other (specify) _____

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COST OF DISPENSING SURVEY METHODOLOGY

- Survey Instrument
 - Overhead Costs

MARYLAND MEDICAID PHARMACY PROGRAMS
MANDATORY COST OF DISPENSING SURVEY

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER Page 3

SECTION IIA -- SALES AND FLOOR SPACE

	Prescription Drugs Only	Total Store Including Prescription Drugs	Line No.
Sales (Excluding Sales Tax)			(1)
Cost of Goods Sold			(2)
Floor Space (Retail area only). Measure. Do not estimate	Sq. Ft.	Sq. Ft.	(3)

SECTION IIB -- OVERHEAD EXPENSES
Complete this section using your Internal financial statement or tax return. If you are using a tax return, please refer to the line numbers in the left columns that correspond to federal income tax return lines.

The following information is from fiscal / tax year ending: _____ / _____ / _____ (4)

2010 Tax Form Number: _____

2010 Tax Form Number	Total Expense	Myers and Stauffer Use Only	Line No.
13 16a 20 24 Depreciation (this fiscal year only - not accumulated).....			(5)
25 14 17 22 Taxes (a) Personal Property Taxes Paid.....			(6a)
(b) Real Estate Taxes.....			(6b)
(c) Payroll Taxes.....			(6c)
(d) Sales Tax.....			(6d)
(e) State Income Tax (Corporations Only).....			(6e)
(f) Any other taxes (specify each type and amount).....			(6f)
20b 13 16 11 Rent (a) Building Rent (See Instructions).....			(7a)
(b) Equipment and Other.....			(7b)
21 13 14 9 Repairs.....			(8)
15 20 26 19 Insurance (a) Workers Comp. and Employee Medical.....			(9a)
(b) Other.....			(9b)
15 15 18 13 Interest.....			(10)
17 20 26 19 Legal and Professional Fees.....			(11)
27 20 26 19 Dues and Publications.....			(12)
27 12 15 10 Bad Debts (this fiscal year only - not accumulated).....			(13)
19 Charitable Contributions (Corporations Only).....			(14)
25 20 26 19 Utilities (a) Telephone.....			(15)
(b) Heat, Water, Lights, Sewer, Trash and other Utilities.....			(16)
25 20 26 19 Operating and Office Supplies (Exclude Rx containers and labels).....			(17)
26 20 26 19 Advertising.....			(18)
27 20 26 19 Computer Expenses.....			(19)
27 20 26 19 Rx Delivery Expenses.....			(20)
27 20 26 19 Rx Containers and Labels (See Instructions).....			(21)

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■ COST OF DISPENSING SURVEY METHODOLOGY

- Survey Instrument
 - Overhead Costs (Continued)
 - Non-labor expenses not included elsewhere were to be included on this page.

MARYLAND MEDICAID PHARMACY PROGRAMS
MANDATORY COST OF DISPENSING SURVEY

Page 4

Other non-labor expenses not included elsewhere

Examples: Security, janitorial, bank fees, credit card fees, franchise fees, switching fees, e-prescribing transaction fees, accreditation fees, continuing education, restocking fees, postage, robotics expenses, etc.

	Total Expense	Myers and Stauffer Use Only	Line No.
(a) _____	_____	_____	(22a)
(b) _____	_____	_____	(22b)
(c) _____	_____	_____	(22c)
(d) _____	_____	_____	(22d)
(e) _____	_____	_____	(22e)
(f) _____	_____	_____	(22f)
(g) _____	_____	_____	(22g)
(h) _____	_____	_____	(22h)
(i) _____	_____	_____	(22i)
(j) _____	_____	_____	(22j)
(k) _____	_____	_____	(22k)
(l) _____	_____	_____	(22l)
(m) _____	_____	_____	(22m)
(n) _____	_____	_____	(22n)
(o) _____	_____	_____	(22o)
(p) _____	_____	_____	(22p)
(q) _____	_____	_____	(22q)
(r) _____	_____	_____	(22r)
Total Overhead Expenses [Add Line (5) through Line (22)] © Myers and Stauffer LC, 2021	_____	_____	(23)

COST OF DISPENSING SURVEY METHODOLOGY

- Survey Instrument
 - Labor Costs

MARYLAND MEDICAID PHARMACY PROGRAMS
MANDATORY COST OF DISPENSING SURVEY

SECTION IIC -- PERSONNEL COSTS -- List each person separately (except Line 4). Attach schedule if necessary. Page 5

	Check if RPO	PERSON Person of Rox Originated by Each RPO	Annual Salaries, Bonuses and/or Drawings	No. Weeks Employed This Fiscal Year	Average Weekly Hours		Line No.
					Total Hours Including Rx Dept.	Rx Dispensing Related Duties Only*	
Owner, Individual							(11a)
Proprietor, Partners, and Sole Shareholders							(11b)
							(11c)
							(11d)
Employee and Self- Employed							(12a)
							(12b)
							(12c)
							(12d)
							(12e)
							(12f)
							(12g)
							(12h)
							(12i)
							(12j)
							(12k)
Subtotal		100%	XXXX	XXXX	XXXX	XXXX	(13)
Other employees with time in Rx Dept. but not in dispensing, delivery personnel, etc.)							(14a)
							(14b)
							(14c)
							(14d)
							(14e)
							(14f)
							(14g)
							(14h)
All Non-Rx Employee Salaries, Bonuses, Profit Sharing, etc.							(15)
Other Employee Benefits							(16)
TOTAL - Salaries and Benefits							(17)

* For purposes of this survey, time associated with the performance of Medication Therapy Management (MTM) activities should not be considered "dispensing related duties"

Myers and Stauffer, P.C.



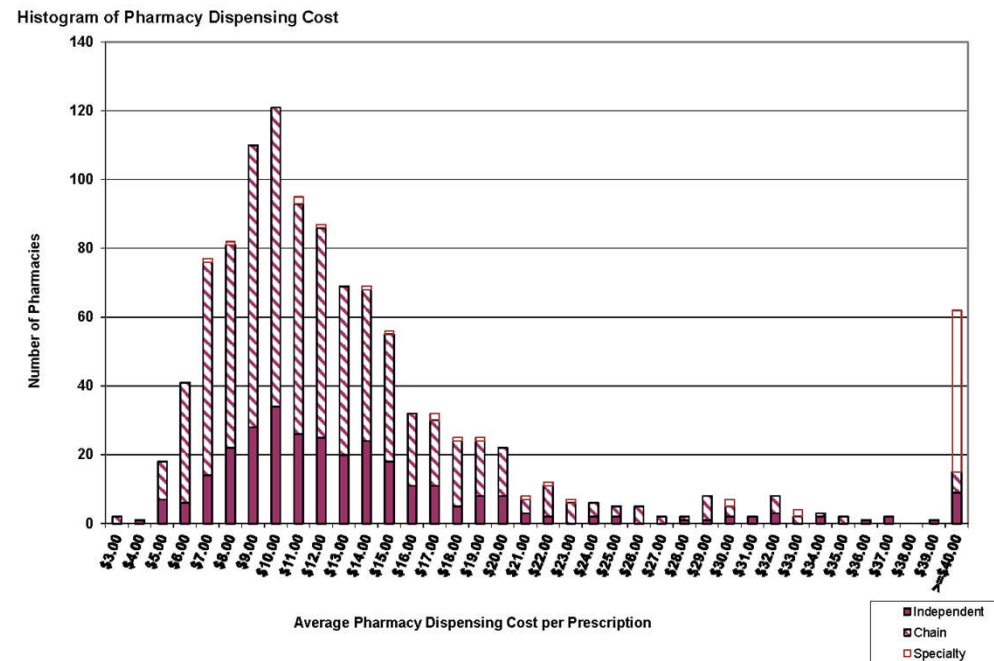
■ **COST OF DISPENSING SURVEY METHODOLOGY**

- Cost Finding
 - Overhead expenses
 - Sales Ratio
 - Area Ratio
 - 100% Prescription Related
 - Non-Prescription Related
 - Labor expenses
 - Percent of hours spent in dispensing duties
 - Reasonableness limits



■ COST OF DISPENSING SURVEY FINDINGS

- Distribution of dispensing cost (the majority of pharmacies had a COD between \$7 and \$20)





■ **COST OF DISPENSING SURVEY FINDINGS**

- **The median dispensing cost weighted by Medicaid volume is \$10.49.**
 - The weighted median is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more.
 - For example, if there were 1,000,000 Medicaid prescriptions dispensed by pharmacies in the sample, and arrayed in order of cost, the median weighted by Medicaid volume is the dispensing cost of the pharmacy that dispensed the 500,000th prescription.
- Statistical report includes other measurements.

■ **COST OF DISPENSING SURVEY FINDINGS**

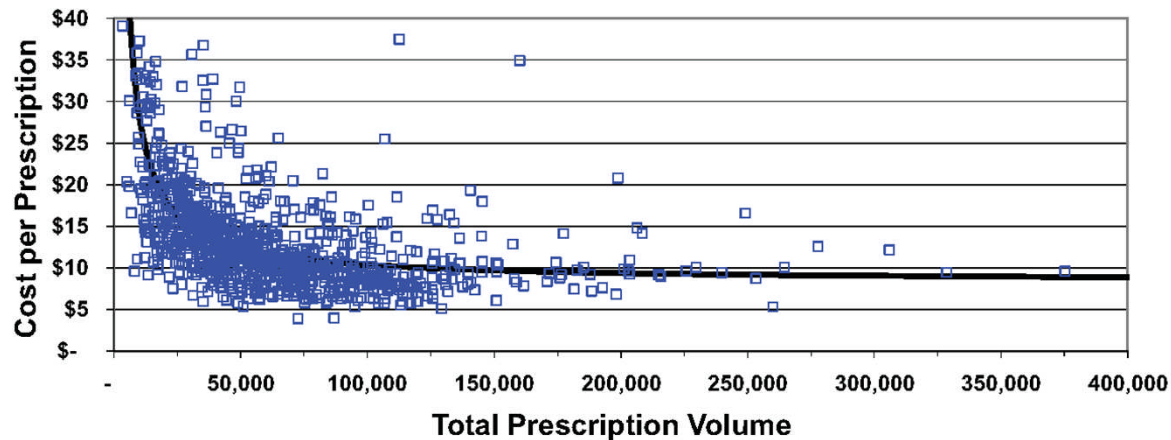
- Some pharmacy attributes did have a significant impact on dispensing cost:
 - Specialty services (i.e., provision of compounded infusion, intravenous, blood factor or other specialty products).
 - Prescription volume.



■ COST OF DISPENSING SURVEY FINDINGS

- Dispensing cost is correlated with annual total prescription volume:

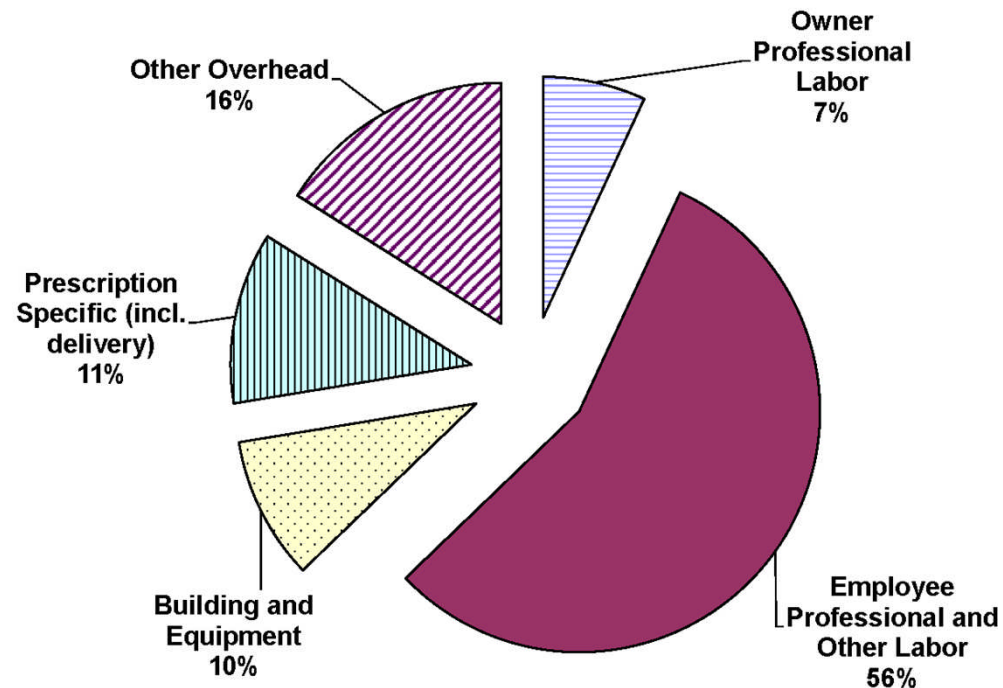
Scatter Plot of Relationship Between Dispensing Cost per Prescription
and Total Prescription Volume
(Non-Specialty Pharmacies)





■ COST OF DISPENSING SURVEY FINDINGS

- Components of Dispensing Cost per Prescription



■ **COST FEASIBILITY ANALYSIS FOR USE OF THE NADAC**

Objective:

To study the feasibility of replacing the current pharmacy reimbursement methodology with the National Average Drug Acquisition Cost (NADAC) benchmark.

■ **COST FEASIBILITY ANALYSIS FOR USE OF THE NADAC**

Understanding NADAC:

- Acquisition based pricing index provided by Centers for Medicare & Medicaid Services (CMS).
- NADAC rates calculated for brand and generic CMS outpatient covered drugs.
- Unique NADAC rates calculated per drug group.
- NADAC rates are updated on a weekly and monthly schedule.
 - Weekly Updates occur for help desk calls and brand products to reflect changes in published pricing.
 - Monthly Updates occur to reflect the results of the ongoing monthly acquisition cost survey for brand and generic products.
- NADAC rate for approximately 98% of DHMH covered drugs.
- CMS NADAC help desk for provider support.

■ **COST FEASIBILITY ANALYSIS FOR USE OF THE NADAC**

Scope and Methodology:

- Incorporated results of the cost of dispensing survey (\$10.49).
- Modeled reimbursement change using historical Medicaid claims from December 2012 to February 2013.
- Based on NADAC and other pricing benchmarks as of May 2013.

■ COST FEASIBILITY ANALYSIS FOR USE OF THE NADAC

- Modeled Reimbursement Methodology

	Current MD Medicaid Pharmacy Reimbursement	Modeled NADAC Reimbursement
Brand Drugs	Lower of: <ul style="list-style-type: none"> •EAC (<i>Lower of AWP-12%, DP+8%, WAC+8%</i>) •Usual and Customary Charges 	Lower of: <ul style="list-style-type: none"> •NADAC •If no NADAC, WAC +0% •Usual and Customary Charges
Generic Drugs	Lower of: <ul style="list-style-type: none"> •EAC (<i>Lower of AWP-12%, DP+8%, WAC+8%</i>) •MD SMAC •FUL •Usual and Customary Charges 	Lower of: <ul style="list-style-type: none"> •NADAC •If no NADAC, WAC +0% •FUL •Usual and Customary Charges
Dispensing Fee	\$3.51 for brand and generics on PDL \$2.56 for brands not on PDL \$4.46 for Nursing home brand and generics on PDL \$3.51 for Nursing home brands not on PDL	\$10.49

■ **COST FEASIBILITY ANALYSIS FOR USE OF THE NADAC**

Observations / Findings:

- Fiscal impact of the modeled reimbursement was approximately budget neutral. Decreases in ingredient reimbursement were offset by the increased dispensing fee.
- There will be a NADAC rate for a large majority of drug claims. If WAC is used as a fallback for NADAC pricing, the number of claims without a NADAC or WAC is minimal.

■ **COST FEASIBILITY ANALYSIS FOR USE OF THE NADAC**

Conclusions:

- It is feasible for Maryland to adopt the NADAC as its primary pharmacy reimbursement benchmark. The NADAC and other AAC benchmarks have already been successfully incorporated into several states' reimbursement methodologies.
- Some alternative pricing approaches may be needed for drugs without a NADAC. In particular, many specialty drugs, new drugs or low utilized drugs do not have a NADAC.

■ STATES REIMBURSING AT AVERAGE ACQUISITION COST (AAC)

State	Ingredient Cost	Dispensing Fee
Delaware	NADAC	\$10.00
Alaska	NADAC	Tiered based on in state location (range: \$13.36 - \$21.28)
Alabama	AAC	\$10.64
Idaho	AAC	Tiered based on total dispensing volume (range: \$11.51 - \$15.11)
Iowa	AAC	\$10.12
Louisiana	AAC	\$10.51
Oregon	AAC	Tiered based on total dispensing volume (range: \$9.68 - \$14.01)
Colorado	Non Rural: AAC Rural: AAC + variable %	Tiered based on total dispensing volume (range: \$9.31 - \$13.40)

Recommendations from M&S



M&S Recommendations Based on Cost Feasibility Analysis

- For brand and generic drugs, use NADAC
- For drugs without NADAC, use WAC + 0%
- For drugs without NADAC or WAC (for example OTCs or new drugs), use our own methodology to calculate provider's AAC (we will need to contract with a vendor in order to determine provider's AAC)
- Remove from our current "lower of" logic the AWP and IDC/SMAC
- Increase Professional Dispensing Fee to \$10.49, which is the median cost of dispensing as identified in the 2011 cost of dispensing study (increase Dispensing Fee by \$ 1 for nursing homes - same as current practice)
- For certain drugs, dispensed by Specialty pharmacies, and which currently require manual review and pricing by the Department, continue the current process & reimbursement (AAC + 8%), until such time that an AAC and Dispensing fee has been established through the use of a separate survey

Current Reimbursement Methodology



Current Reimbursement Methodology

Prescription	Payment is lesser of	Allowable cost
<ul style="list-style-type: none"> Legend Drugs Schedule V Cough Preps Enteric Coated Aspirin Oral Ferrous Sulfate Prods 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	Lesser of: <ol style="list-style-type: none"> IDC EAC (lesser of): <ul style="list-style-type: none"> WAC+8% Direct+8% AWP - 12% FUL
<ul style="list-style-type: none"> Chewable Ferrous Sulfate with Multivitamins 	<ul style="list-style-type: none"> U/C Allowable Cost + 50% Allowable Cost + Dispensing Fee 	Lesser of: <ol style="list-style-type: none"> IDC EAC (lesser of): <ul style="list-style-type: none"> WAC+8% Direct+8% AWP - 12% FUL
<ul style="list-style-type: none"> Other OTC Drugs (Insulin and Nutritional Supplements) 	<ul style="list-style-type: none"> U/C Allowable Cost + 50% Allowable Cost + Dispensing Fee 	AWP

Current Reimbursement Methodology (Cont.)

Prescription	Payment is lesser of	Allowable cost
<ul style="list-style-type: none"> Medical Supplies and Durable Medical Equip (Needles and Syringes) 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	AWP
<ul style="list-style-type: none"> Condoms 	<ul style="list-style-type: none"> U/C Allowable Cost + 50% 	EAC (lesser of): <ul style="list-style-type: none"> WAC+8% Direct+8% AWP – 12%
<ul style="list-style-type: none"> DAW 1 & 6 Claims 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	EAC (lesser of): <ul style="list-style-type: none"> WAC+8% Direct+8% AWP – 12%

The Department utilizes different dispensing fees based upon whether the drug is a brand drug (\$2.56 per claim) or generic drug (\$3.51 per claim) or whether the pharmacy is a nursing home (\$3.51 for brand drugs, \$4.46 for generic drugs) or a home intravenous drug therapy provider (\$6.89 per claim)

New Reimbursement Methodology



New Reimbursement Methodology

Prescription	Condition	Payment is lesser of	Allowable cost
<ul style="list-style-type: none"> Regardless of Drug Category 	<ul style="list-style-type: none"> At least one NADAC price available 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	Allowable Cost lesser of: <ol style="list-style-type: none"> 1. NADAC (NDG or NDB) 2. FUL 3. AAC (State determined Actual Acquisition Cost)
<ul style="list-style-type: none"> Regardless of Drug Category 	<ul style="list-style-type: none"> No NADAC available but WAC available 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	Allowable Cost is lesser of: <ol style="list-style-type: none"> 1. WAC 2. FUL 3. AAC (State determined Actual Acquisition Cost)
<ul style="list-style-type: none"> Regardless of Drug Category 	<ul style="list-style-type: none"> No NADAC and no WAC available 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	Allowable Cost is lesser of: <ol style="list-style-type: none"> 1. AAC (State determined Actual Acquisition Cost) 2. FUL
<ul style="list-style-type: none"> Condoms 		<ul style="list-style-type: none"> U/C Allowable Cost + 50% 	Allowable Cost lesser of: <ol style="list-style-type: none"> 1. NADAC (NDG or NDB) 2. FUL 3. AAC (State determined Actual Acquisition Cost)

New Reimbursement Methodology (Cont.)

Prescription	Condition	Payment is lesser of	Allowable cost
<ul style="list-style-type: none"> DAW 1 and DAW 6 Claims 	<ul style="list-style-type: none"> NADAC (NDB) price available 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	Allowable Cost lesser of: <ol style="list-style-type: none"> NADAC (NDB) AAC (State determined Actual Acquisition Cost)
<ul style="list-style-type: none"> DAW 1 and DAW 6 Claims 	<ul style="list-style-type: none"> No NADAC (NDB) available but WAC available 	<ul style="list-style-type: none"> U/C Allowable Cost + Dispensing Fee 	Allowable Cost is lesser of: <ol style="list-style-type: none"> WAC AAC (State determined Actual Acquisition Cost)

1. The dispensing fee will be \$10.49 for all drugs. The dispensing fee for Nursing Home pharmacies will be \$11.49 (still 1 dispensing fee per member per 30 days). Home Intravenous drug therapy providers will receive a \$15 dispensing fee per claim.

2. For certain drugs, dispensed by Specialty pharmacies, and which currently require manual review and pricing by the Department, continue the current process & reimbursement (AAC + 8%), until such time that an AAC and Dispensing fee has been established through the use of a separate survey

3. For certain covered Over the Counter Products (e.g. nutritional supplements) the Department will establish an AAC based on the actual cost to the provider

Next Steps



Steps:

- Rx claims adjudication system
- Regulations
- State Plan Amendment
- Pharmacy Provider Manual
- Help desk for state AAC
- Cost of Dispensing and AAC Survey for certain specialty drugs



Email: DHMH.mmpp@maryland.gov



Thank you for your Service
to the
Maryland Medicaid Recipients
and
The State of Maryland

